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Lockyer: Calif. Won't Ditch S&P

Comments Follow Controller Threat

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By [Rich Saskal](#)

SAN FRANCISCO - Much as he would like to, California Treasurer Bill Lockyer does not plan to launch a boycott of Standard & Poor's.

"While we would like to live in a world where we can tell Standard & Poor's to pound sand, we don't live in that market today," Lockyer spokesman Tom Dresslar said yesterday.

Dresslar was commenting in the wake of a speech by state Controller John Chiang yesterday, in which Chiang said California is poised to boycott Standard & Poor's because the rating agency won't sit down with issuers to discuss changes to the rating system.

In California, it is the treasurer's office, under Lockyer, that issues state bonds and contracts with rating agencies.

"We appreciate the controller's support for Lockyer's initiative to end the taxpayer rip-off that's occurring under the current system," Dresslar said.

He said Lockyer believes Standard & Poor's has been completely uncooperative in response to his calls for reforms to the municipal bond rating system.

"We have evaluated the possibility of boycotting Standard & Poor's," Dresslar

said. "Unfortunately, given current market realities and Standard & Poor's dominance of the market, such an action would be counterproductive to the goal of protecting taxpayers."

Lockyer, in a March letter signed by 14 other prominent issuer officials from around the country, urged the three major rating agencies to create new rating standards for municipal debt. They say the existing rating system for municipal bonds is unfair because it assigns munis lower ratings than corporate bonds that have higher default risks.

Chiang told The Bond Buyer his boycott call was designed simply to draw Standard & Poor's into the discussion over the rating system.

"We have been in discussion with various market participants about our ratings and we welcome the opportunity to meet and speak with the controller as well," Standard & Poor's spokesman Christopher Mortell said in an e-mailed statement yesterday.

Moody's Investor's Service and Fitch Ratings "have been somewhat constructive in their response to the call for reform," Dresslar said. "Standard & Poor's has done nothing but stonewall, distort facts, and issue condescending lectures."

Standard & Poor's officials have said they already have a global rating scale used across all sectors.

"That is an outright falsehood," Dresslar said. "They should quit telling that lie." In his March letter, Lockyer said municipal bonds with Standard & Poor's BBB rating have defaulted at half the rate of AAA corporates.

A boycott of Standard & Poor's, Dresslar said, would cost taxpayers too much because it would probably raise the cost of bond insurance and make it harder

for the state to obtain letters of credit and liquidity support.

Moody's is currently taking comments on a plan to assign global scale ratings in addition to municipal scale ratings to tax-exempt municipal obligations upon issuer request, starting in May.

It already offers such ratings to municipal issuers of taxable bonds. In the case of California general obligation bonds, rated A1 on the Moody's municipal scale, Moody's assigns its global scale Aaa rating.

Chiang and Lockyer both sit on the boards that govern the two of the nation's largest retirement systems, the California Public Employees Retirement System and the California State Teachers Retirement System.

CalPERS has already formally endorsed Lockyer's rating reform effort and Chiang said CalSTRS is expected to do so as well. That could even result in proxy battles against the owner of Standard & Poor's, McGraw-Hill Cos., to facilitate issuers' efforts to seek rating reform, Chiang said.

Another issuer official, Dormitory Authority of the State of New York executive director David Brown, added his name to the rating reform bandwagon this week.

"I join Treasurer Lockyer in looking forward to the day when the current rating system is replaced by a unified approach that equitably assesses the creditworthiness of corporate and municipal bonds," Brown said in a statement dated Monday.

Frank Hoadley, chairman of the debt management committee of the Government Finance Officers Association, said discussions are underway among committee members about the issue of rating reform, but that GFOA is not at

the point of having a policy position.

"There is a spectrum of opinion out there right now," he said. Hoadley, who is Wisconsin's capital finance director, added that the Wisconsin government has taken no position on the issue.

Richard Larkin, senior vice president and director of research for Herbert J. Sims & Co., said yesterday in an e-mail: "As much as I think that municipal ratings are too low, if S&P caves in to this pressure, they stand to see their reputation as 'independent' being questioned. S&P is between a rock and a hard place now."

Ted Phillips contributed to this story.

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